Daily Comment

Confluence INVESTMENT MANAGEMENT

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Posted: July 16, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were relatively flat, with the Shanghai Composite essentially unchanged from its previous close and the Shenzhen Composite up 0.1%. US equity index futures are signaling a slightly lower open.

With 30 companies having reported so far, S&P 500 earnings for Q2 are running at $62.90 per share, compared to estimates of $64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 76.7% have exceeded expectations while 16.7% have fallen short of expectations.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our website. We highlight recent publications below with new items of the day in bold.

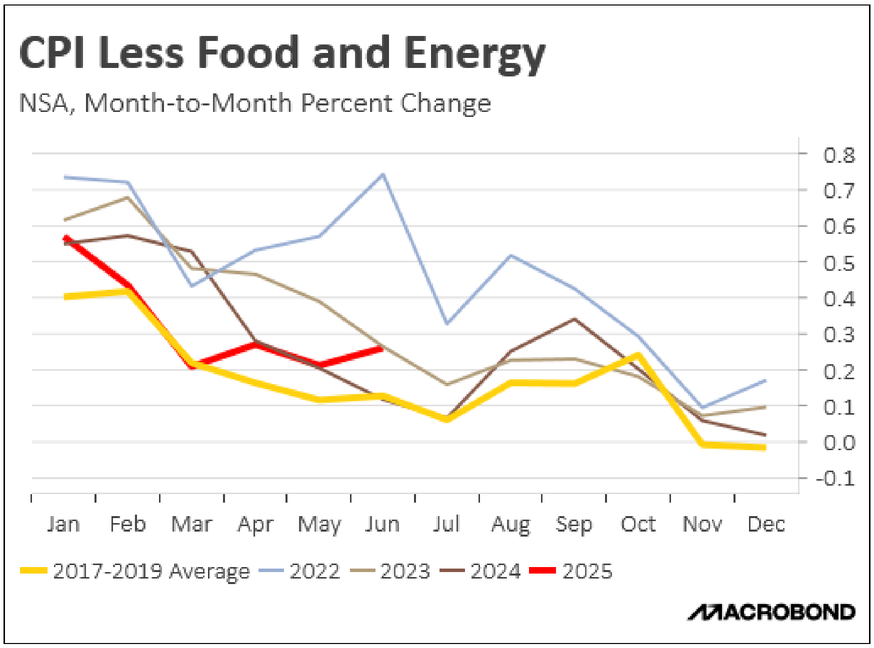
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Mid-Year Geopolitical Outlook" (7/14/25)	"The Hidden Battle in the 'One Big, Beautiful Bill'" (6/30/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	**The Confluence Mailbag Podcast**

Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

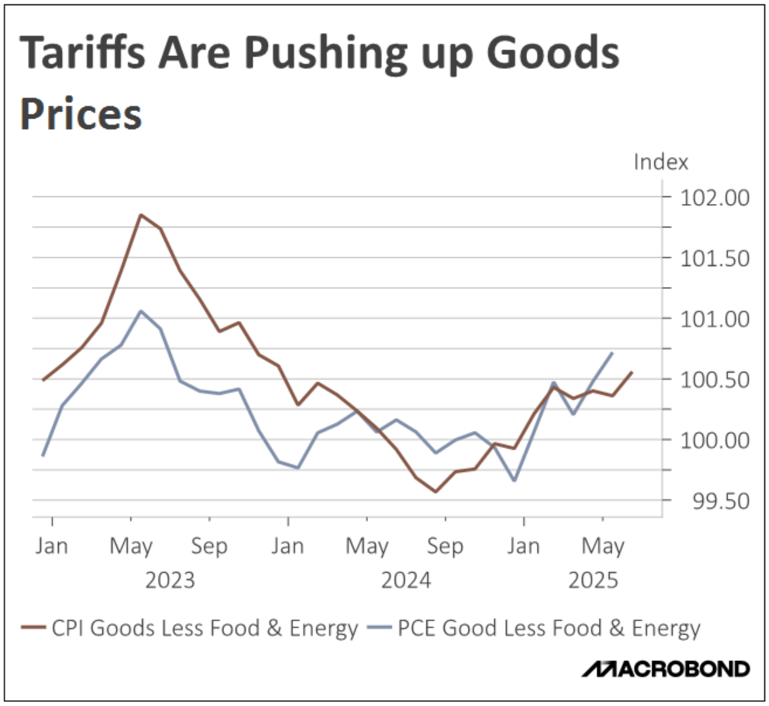
Good morning! The market remains squarely focused on the latest earnings reports as we navigate through this busy season. Today's *Comment* will highlight where the effects of tariffs are becoming more apparent in the inflation data, provide updates on ongoing trade discussions, and cover other market-moving developments. As always, we'll include key domestic and international data releases to keep you informed.

Tariff Pressure: Although inflation was lower than expected, there are increasing signs that tariffs are beginning to drive prices higher.

- The Consumer Price Index (CPI) rose to 2.7% year-over-year in June, up from 2.4% the previous month, marking the fastest pace of inflation since February. While the increase aligned with market forecasts, it represented a notable acceleration from May's reading. Core CPI, which excludes volatile food and energy prices, climbed more modestly, edging up from 2.8% to 2.9%, just below the consensus estimate of 3.0%.
- While the inflation report appears benign at first glance — with the increase largely driven by volatile year-over-year base effects — underlying trends indicate inflation may be diverging from the disinflationary path observed earlier this year. As the chart below illustrates, June's monthly increase was the largest since 2023, signaling potential reacceleration.



- Much of the increase has been driven by goods subject to tariffs, including household appliances, toys, and home furnishings. Additionally, there are also signs that core services inflation, which excludes housing, is beginning to heat up, suggesting that rising input costs — and potentially even wages — are picking up again.
- While the inflation uptick was widely expected, debate persists about its duration as the Fed weighs policy changes. Advocates of the transitory view maintain that price pressures will moderate as businesses adapt to new tariff regimes. Skeptics, however, warn that diminished competition may encourage firms to exercise greater pricing power, potentially sustaining higher inflation.



- The latest inflation reading will likely discourage many FOMC members from supporting a July rate cut. As a result, the September meeting may now be the earliest they will consider easing policy, barring another significant inflation setback. We're closely watching the increased reliance on estimated data rather than actual inputs within the inflation index, as this could undermine the Fed's confidence in the readings.

Indonesia Trade Deal: President Trump announced a trade deal with Indonesia, but the final details of the arrangement have yet to be disclosed.

- In a post on Truth Social, the president announced that Indonesia has agreed to reduce tariffs on all US exports while committing to purchase $15 billion in American energy products, $4.5 billion in agricultural goods, and 50 Boeing aircraft. In return, the US will raise its tariff rate on certain Indonesian imports from the current 10% to 19% — still well below the potential maximum of 32%.
- While final details have not been revealed, the Indonesian government has confirmed that a deal was reached. Speculation suggests the arrangement may grant preferential treatment to Indonesia's copper exports (potentially a reduction in rates or an outright exemption) when tariffs are scheduled to increase to 50% after August 1.
- Tariffs are gradually increasing with minimal market reaction, suggesting the economic impact may already be priced in or that the market is awaiting earnings data for clearer judgment. While progress on trade deals boosted confidence last quarter, resilient earnings and positive guidance will be key to stabilizing market expectations now.

Trump Trade Threats: Having secured the Indonesia trade agreement, the administration is now intensifying its global trade negotiations.

- President Trump has announced potential increases to import taxes on pharmaceuticals and semiconductors, set to begin by month's end. This escalation in tariff threats represents a strategic push to pressure trading partners into negotiations while encouraging manufacturers to reshore operations. While specific rates remain undefined, the administration has floated pharmaceutical tariffs as high as 200%. Semiconductor duties could rise to approximately 25%.
- Meanwhile, signs of international pushback are emerging. The EU has accused the US administration of stalling negotiations and has finalized a $72 billion list of potential countermeasures, including tariffs on bourbon, automobiles, and Boeing aircraft, should talks with the US fail. Separately, Japan appears increasingly reluctant to engage, likely due to dissatisfaction with the Trump administration's demands in exchange for a deal.
- While we anticipate ongoing trade negotiations in the coming weeks, there is a fear of renewed conflicts. The primary concern is the administration's apparent prioritization of speed over comprehensive agreements. Though this may serve as a negotiating tactic, it risks escalating tensions with our major trading partners and potentially laying the groundwork for future trade disputes.

Earnings From Banks: Leading financial institutions delivered strong Q1 earnings, with their reports shedding new light on the state of consumer spending patterns.

- Several major financial institutions exceeded earnings estimates this week. On Wednesday, Bank of America reported stronger-than-expected results, indicating that the bank remains in good financial standing. This performance echoes positive results from peers including Goldman Sachs and Citigroup. However, bank executives did voice some cautious notes during their earnings calls.
- The banking sector's strongest performance driver was supported by increased market activity due to trade uncertainty, which boosted trading revenue as investors capitalized on shifting market sentiment. Furthermore, household credit quality remained stable, with consumers continuing to meet payment obligations while increasing credit utilization. However, challenges emerged as some commercial clients experienced higher write-offs, and lower-income segments began showing signs of financial stress.
- The banking sector's strong performance thus far is encouraging for the broader economy, given that recessions typically stem from financial system vulnerabilities. With both corporate and household balance sheets remaining healthy, the likelihood of a severe economic downturn appears limited in the near term.

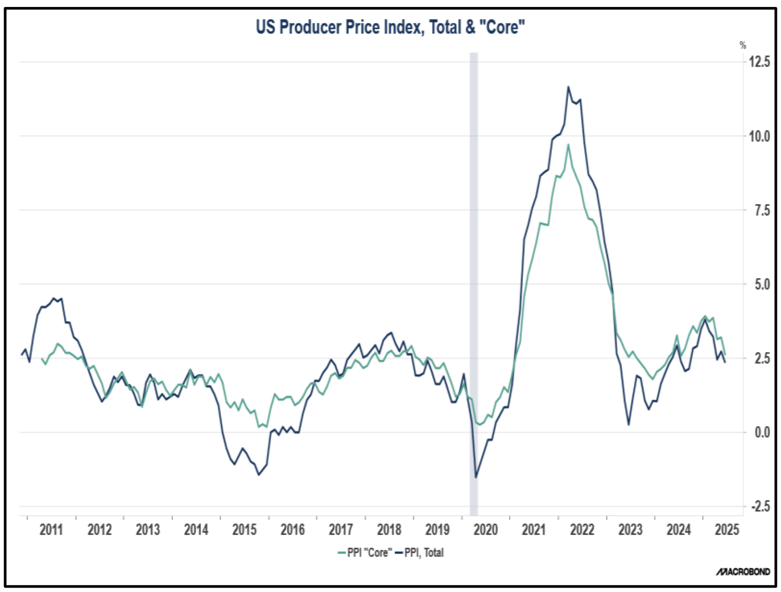
Middle East Turmoil: Israel has ramped up attacks in Syria as it looks to protect a minority group in the struggling nation.

- On Wednesday, Israel launched an airstrike targeting the entrance of Syria's military headquarters, citing the need to protect the Druze minority amid ongoing clashes with Bedouin tribes in the Sweida province. The operation also served to strengthen Israel's security position along its border regions.

- The ongoing conflict underscores the transitional challenges of the Syrian government in asserting authority over the region following the fall of the Assad regime. While we do not anticipate a broader regional war, we are closely monitoring the situation due to its potential implications for global commodity markets.

US Economic Releases

The June ***producer price index (PPI)*** was unchanged on a seasonally adjusted basis, compared to an expected rise of 0.2% and the previous month's rise of 0.3%. Excluding the volatile food and energy components, the June ***"core" PPI*** was also unchanged, compared to an expected rise of 0.2% and the previous month's rise of 0.4%. The overall PPI in June rose 2.3% from the same month one year earlier, compared to an expected rise of 2.5% and the previous month's rise of 2.7%, while the core PPI rose 2.6%, compared to an expected rise of 2.7% and the previous month's rise of 3.2%. The chart below shows the year-over-year change in the PPI and the core PPI over the last decade or so.



The Mortgage Bankers Association today said ***mortgage applications*** for the week ended July 11 fell 10%, largely reversing the previous week's 9.4% rise. The index had risen for three consecutive weeks. Applications for home purchase mortgages fell 11.8%, compared to the previous week's rise of 9.4%. Applications for refinancing mortgages fell 7.4%, compared to the previous week's rise of 9.2%. Meanwhile, the average interest rate on a 30-year mortgage rose 5 basis points to 6.82%.

The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
8:00	Thomas Barkin Gives a speech in Westminister, MD	President of the Federal Reserve Bank of Richmond
9:00	Beth Hammack speaks on Community Development	President of the Federal Reserve Bank of Cleveland
10:00	Michael Barr Speaks on financial Regulation	Members of the Board of Governors
14:00	U.S. Federal Reserve Releases Beige Book	Federal Reserve Board
15:30	Raphael Bostic Appears on Fox Business Network	President of the Federal Reserve Bank of Atlanta
17:30	John Williams Speaks on Economic Outlook, Policy	President of the Federal Reserve Bank of New York

Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant; thus, we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do change over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
South Korea	Export Price Index	y/y	Jun	-4.5%	-2.6%		*	Equity and bond neutral
	Import Price Index	y/y	Jun	-6.2%	-5.1%		*	Equity and bond neutral
	Unemployment Rate	m/m	Jun	2.6%	2.7%	2.7%	***	Equity and bond neutral
EUROPE								
Eurozone	Trade Balance SA	m/m	May	16.2b	15.1b	14.0b	*	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Jun F	1.8%	1.7%	1.7%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Jun F	1.7%	1.7%	1.7%	**	Equity and bond neutral
UK	CPI	y/y	Jun	3.6%	3.4%	3.4%	***	Equity and bond neutral
	CPI Core	y/y	Jun	3.7%	3.5%	3.5%	***	Equity and bond neutral
	Retail Price Index	m/m	Jun	4.4.5	402.9	404.0	**	Equity and bond neutral
	RPI	y/y	Jun	4.4%	4.3%	4.3%	**	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	May	-0.9%	-2.7%	-1.3%	**	Equity and bond neutral
	CPI	y/y	Jun	1.9%	1.7%	1.9%	***	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	11-Jul	$241912m	$241880m		*	Equity and bond neutral

Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

Fixed Income	Today	Prior	Change	Trend
3-mo T-bill yield (bps)	424	423	1	Up
U.S. Sibor/OIS spread (bps)	433	434	-1	Up
U.S. Libor/OIS spread (bps)	430	430	0	Up
10-yr T-note (%)	4.48	4.48	0.00	Up
Euribor/OIS spread (bps)	204	204	0	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			Up

Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

	Price	Prior	Change	Explanation
Energy Markets				
Brent	$68.12	$68.71	-0.86%	
WTI	$65.88	$66.52	-0.96%	
Natural Gas	$3.52	$3.52	0.03%	
Crack Spread	$27.80	$27.67	0.49%	
12-mo strip crack	$23.82	$23.85	-0.15%	
Ethanol rack	$1.90	$1.89	0.31%	
Metals				
Gold	$3,338.97	$3,324.55	0.43%	
Silver	$37.95	$37.71	0.65%	
Copper contract	$552.00	$557.75	-1.03%	
Grains				
Corn contract	$424.25	$419.75	1.07%	
Wheat contract	$537.00	$538.00	-0.19%	
Soybeans contract	$1,009.75	$1,001.75	0.80%	
Shipping				
Baltic Dry Freight	1,866	1,783	83	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.60		
Gasoline (mb)		-1.00		
Distillates (mb)		-1.50		
Refinery run rates (%)		-0.3%		
Natural gas (bcf)		62		

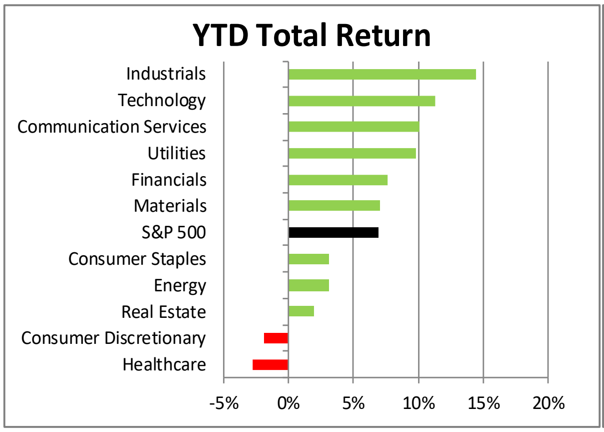
Weather

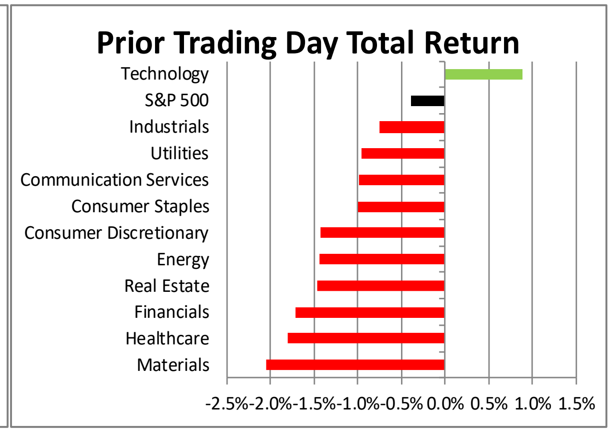
The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures on the California coast. The forecasts indicate wetter-than-normal conditions in the northern tier and Southeast, with drier-than-normal conditions in Nevada, Utah, and Texas.

The tropical weather outlook shows an area of disturbance stretching along the Gulf Coast from the Florida panhandle to Louisiana, with a 40% chance of cyclonic formation in the next seven days.

Data Section

US Equity Markets – (as of 7/15/2025 close)

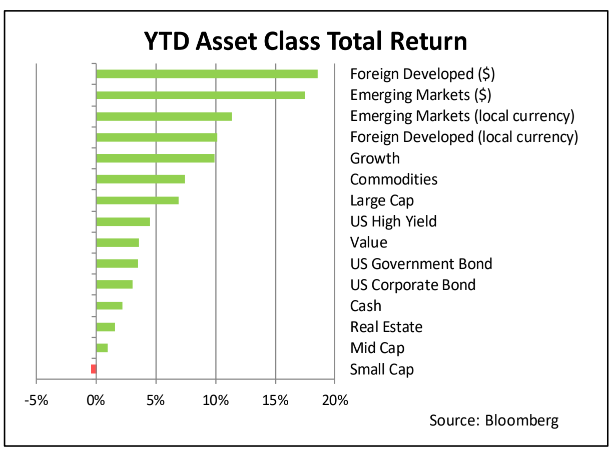




(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

Asset Class Performance – (as of 7/15/2025 close)

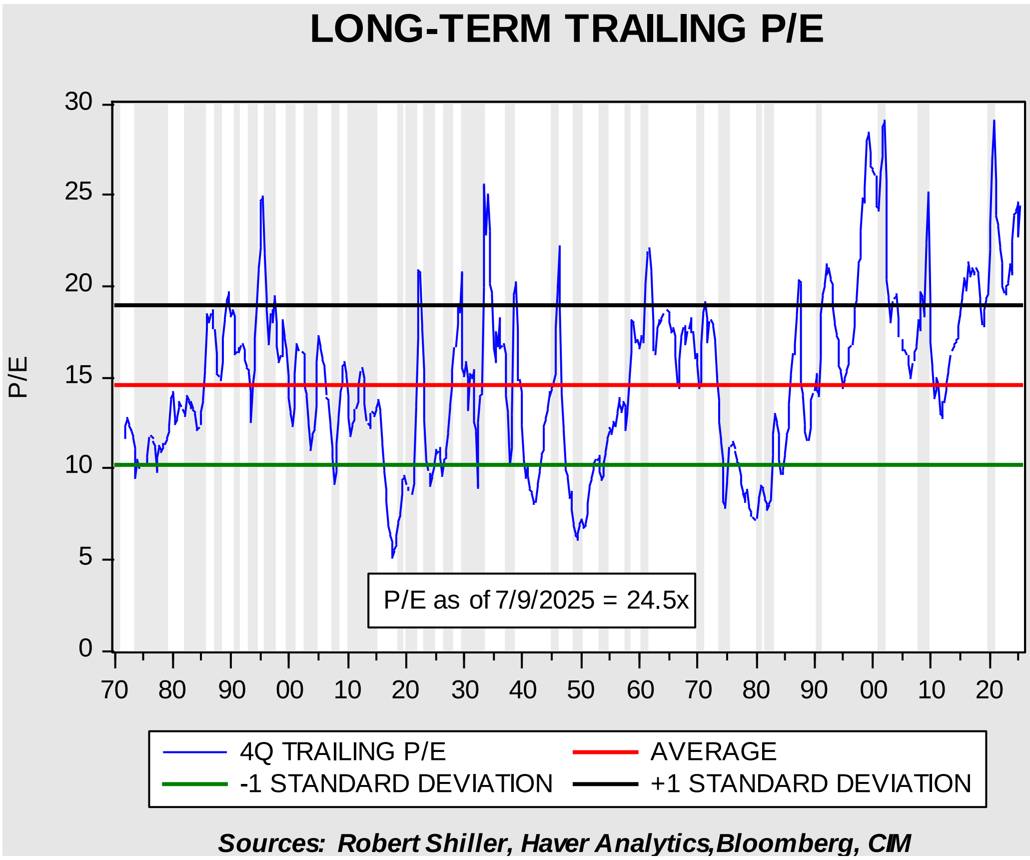


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx $ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx $ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

P/E Update

July 10, 2025



Based on our methodology,[1] the current P/E is 24.5x, up 1.4 from our last report. This rise in the multiple is attributable to a shift in quarters, which boosted the average stock price index, and a new earnings estimate that was down from the previous quarter.

This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.

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[1] This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q1, Q3, Q4) and one estimate (Q2). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.